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FINANCIAL MANAGEMENT:
LOOKING BACK TO 1950 AND AHEAD TO 2000

I was especially happy to accept your invitation to serve as the keynote speaker, not only because of my interest in the subject of government financial management but also because I had a part to play, as an official of the Bureau of the Budget, in support of the Budget and Accounting Procedures Act of 1950 which became law almost on the same date that the Federal Government Accountants Association was formally organized.

A Silver Anniversary is always a notable event. This one for the FGAA is unusually important. It is important because these Symposia, over the years, have helped to improve the efficacy of your work as government accountants, auditors, and managers throughout the Federal system, and your work is a yeast to every department and agency. Your work for top and middle management brings about changes and improvements in government services to taxpayers. Perhaps I should add that if I am wrong about that there may never be another Silver Anniversary. As accountants, auditors, and managers, we all know our purpose in being: to improve the ways in which Federal departments and agencies operate on behalf of the public.

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Senator Sam Ervin, who teaches us by parable as you know, tells a story about a North Carolina man who reached his 95th birthday. A newspaper reporter came to see him and said: "Well, you've seen many changes in your life." "Yes," said the man, "and I was against every one of them."

It is not that way for us in government. Change is our way of life. And if any of you think that changes for improvement are not continuing demands upon us; if any of you think that government services are really better than many people believe they are, let me read to you one man's recent description of government as he saw it after a period of service at a high level in the State Department. This was his burlesque view:

The government becomes like an immense, somnolent animal that cannot twitch its toe unless it first moves twenty other parts of its body. And before it can do that, it has to undertake a laborious task of self-inspection. It must notice that its tail is tangled in its rear legs and unwind it; it must cure its right front foreleg of the tendency to move backward whenever the left foreleg moves forward; and, at the end, it must probably take one extra foot, whose existence it had forgotten, out of its mouth. By the time it has finished this process, the animal is often too tired to twitch its toe--if it can even remember that this was its original intention.

Obviously this is a caricature. But there is still enough substance to the picture he draws that we, as government auditors, should not ignore the point. This is why, at the time the General Accounting Office reached its golden anniversary 4 years ago, I selected as a theme for our GAO celebration events, this slogan: "Improving Management for More Effective Government."

And those of us here today know how management in government is improved. It is based in large part upon the hard work of auditors, accountants and financial managers like yourselves who go out and get the facts and report them to management. This is not to suggest that managers in government are not themselves seeking ways to do their jobs and run their departments better. They are. But there is no substitute for keeping score cards on the departments and agencies.

I am reminded of an occasion when a group of government officials were playing golf. One of them said: "George plays a fair game of golf, doesn't he?" Someone else replied, "Yes, as long as someone is watching him." In other words, there is no substitute for awareness in government that someone will independently double-check one's performance. This is the yeast, as I said, causing the ferment from which comes change and better ways of doing things.

It is in that spirit, as your keynote speaker, that I will discuss implications of some of the subjects which are on your program over the next 3 days. At the same time I will discuss some of the real and serious challenges that face us as accountants, auditors and managers at all levels of government, as well as in the private sector. The low confidence in government and other institutions, such as industry, the universities, the press, and other media, all stem from the extent of accountability and performance--or lack of it--provided to the public by these institutions.

Members of the accounting, auditing and management professions represented in this Symposium are particularly well placed to contribute to the integrity of the democratic process by their dedication to the ideal of improved public accountability.

Since 1952 these Symposia have contributed much to the development of the members of FGAA and also to improvement of financial management in government. Attendance that has expanded to representatives of State and local governments, private industry, and consulting firms testifies to the growing impact of these meetings.

I am especially proud of GAO officials and staff members who have contributed to the history and the success of both the FGAA and the Symposia. In its first 25 years, 5 of our top officials have been national presidents and I am delighted that another one--Don Scantlebury--has just been selected to serve next year in this important post.

Many other GAO people have served in other capacities and, I have been told, one of them, the late Irwin S. Decker, who was for many years active in this association, can rightfully be recognized as the father of the FGAA Symposium idea.

Another to whom we pay tribute is Walt Frese, one of FGAA's founders. As we all know, he was highly instrumental in shaping beginnings, back in the late 1940's, of what we now call the Joint Financial Management Improvement Program and made many major contributions to improving the Federal Government's financial management systems.

Walt headed a staff in GAO which took the initiative in working with operating agencies to help them establish improved accounting systems. He had the strong support and collaboration of the Bureau of the Budget and the Treasury Department.

The presence of many other leaders of the profession in the plenary sessions and the workshops of this Symposium is indicative of the vitality and the acceptance of the Symposium idea by the entire profession.

Let us turn now to specific issues and challenges of the forthcoming plenary sessions.

Joint Financial Management Improvement Program

As you know, the Joint Financial Management Improvement Program was started as a means to improve accounting in the Federal Government. The early thrust was toward coordinating activities of the three central fiscal agencies, but all other government agencies were involved from the beginning.

The mission of the Joint Program has been broadened over the years to include all aspects of financial management. The number of sponsoring agencies has grown from original three to five. In 1966 the Chairman of the Civil Service Commission was invited to join the program and in 1973 the Administrator of General Services accepted an invitation to participate. Chairmanship rotates periodically among the five sponsoring agencies. Arthur Sampson, Administrator of General Services, is the current Chairman.

During the past 25 years, the Joint Program's greatest contribution was to bring about a change in basic concepts of how financial control in the Federal Government was to be exercised. It adopted as basic premises--reflected in the Budget and Accounting Procedures Act of 1950--that:

- Maintenance of accounting systems and production of financial records are functions of the executive branch which must participate fully in the development of systems.
- There must be an audit independent of the executive branch which gives appropriate recognition to internal audit and control. Properly designed accounting systems are a vital factor to the effectiveness of the independent audit.

These ideas are taken for granted now, but in January 1949, when they were officially subscribed to by Comptroller General Lindsay C. Warren, Director of the Bureau of the Budget James E. Webb, and Secretary of the Treasury John W. Snyder, they needed to be stated loudly and clearly.

This need existed because the system of financial procedures and controls that had grown up in the Government based on duplicate recordkeeping, a flow between agencies of millions of fiscal documents each year, and a centralized and narrowly focused audit of such documents not only was costly but ineffective and out of tune with modern concepts of financial management control.

For many years leadership in this program was provided by staff members in the central agencies who had many other responsibilities to discharge in their agencies. About 2 years ago, however, some of us realized that there was need for a small full-time staff if the Joint Program was to take greater advantage of the opportunities for financial improvements throughout the Federal Government. The program now has an active and diversified agenda.

One of the important cooperative efforts underway is the project to measure and improve the productivity of government workers. The Joint Program has important responsibilities in this, including preparation of an annual report on productivity in the Federal Government. I am pleased with the interest which the FGAA has shown in this subject as evidenced by, among other things, the successful productivity symposium at Williamsburg last December and a workshop on productivity at this symposium.

We need to be more vigorous in applying available financial management technology in agency accounting systems. Approaches such as accrual accounting and cost-based budgeting have long been advocated by the leadership of the Joint Program and specified in laws and directives. These techniques are not being accepted as fully as they should.

Financial managers can help assure that financial data is used more effectively in productivity and other performance measurement systems, particularly in being able to relate costs to units of output. There is need for collaboration of financial managers with program managers and ADP specialists in integrating financial data into a variety of management information systems. As in the case of so many aspects of financial management, it is the professional financial managers in the operating agencies who can have the biggest impact.

Congress and the Budget

In recent months, I have been pleased with efforts being made by the Congress to function more effectively in establishing budgetary priorities, and in obtaining the information needed to evaluate proposals of the executive branch. These actions cover a wide front, and have been well publicized. I refer to them only in passing. For the most part, they deal with the organization and staffing of the Congress. They range from improving the number and quality of congressional staff to changes in the committee structure, the selection of committee chairmen, and the role and responsibility of the party caucus in each House.

The congressional action to focus on today is in the Congressional Budget and Impoundment Control Act of 1974. This is the most significant legislation in the field in years. Many of you are familiar with it, but even so, a GAO perspective may be helpful.

Congress' control of the budget and appropriation process in recent years, and perhaps for many years, has been inadequate. An inevitable question addressed to anyone talking about the budget and appropriation process is, "Have we lost control of the budget?"

From a congressional viewpoint, perhaps the loss of control started with the establishment of the Executive Office of the President and the Bureau of the Budget in that Office in the late '30s. Like most developments from the invention of the wheel to controlled nuclear reactions, the full significance of this development only gradually became clear to us.

The capability of the President, whoever he might be, to do his job, including managing the executive branch and dealing with the Congress, was strengthened immensely by this change. With growing national and international problems, there was wide acceptance of increased Presidential responsibility and authority.

But the Congress has been stirred to respond to this growing Presidential power, as well as to its own organizational problems. Through the Budget Control Act of 1974, the Congress can deal more effectively with budget and appropriation matters than ever before.

The law is unusual in its focus on procedure and in the detail with which it specifies procedure and schedules. In its requirements the Congress, for the first time, will be looking at the whole relationship between income and out-go, as well as at component pieces. Appointment of the new Budget Committees are only the first steps in a long, difficult, and complex process, but the evidence to date is that the Congress is deadly serious in its intention to deal more effectively with the Federal budget.

There is need for better information systems that produce understandable and usable information not only for managers but for members of Congress. There also is need for program evaluation--more of it and useful reports on the results of programs for managers and for members of Congress.

Federal, State, and Local Relationships

Just 10 years ago, Federal assistance to State and local governments added up to only about \$12 billion annually. More than \$55 billion for this purpose is projected for 1976. The proportion of the total Federal budget represented by this assistance increased during this period from about 10 percent to 21 percent.

The rapid growth in the number and variety of Federal assistance programs has been accompanied by increasing criticism and demands for reform of the financial delivery system, even from the supporters of these programs.

Since the mid-1960s numerous attempts have been made by the legislative and executive branches to improve the delivery of financial assistance to State and local governments. Two major pieces of legislation have helped to simplify the delivery of Federal assistance. The first was the Comprehensive Employment and Training Act of 1973. This replaced the numerous categorical manpower programs with a new program of comprehensive--sometimes called "block"--grants to State and local governments for planning and operating manpower programs. The second was the Housing and Community Development Act of 1974. This consolidated seven categorical grant programs into a comprehensive block grant program for community development. This consolidation was designed to reduce paperwork and red tape, expand State and local responsibility, and help assure greater continuity of funding because of the program's 3-year authorization.

Despite these and other actions taken to improve the delivery system, fundamental problems continue. Federal agencies still insist on the "unique" requirements of individual programs and often lack sufficient rapport with State and local officials. Many other problems are attributable to the proliferation of Federal assistance programs and the fragmentation of responsibility among different Federal departments and agencies.

We now have a mix of methods for providing Federal assistance--categorical grants, block grants, general revenue sharing, and tax expenditures--each of which has a role to play in providing Federal financial assistance. Each method of delivery has different management and money implications. Do we really know what the full effect or impact is of these different methods on Federal, State, and local governments?

The concept of the Constitution as a living and flexible document is no more sharply illustrated than in the financial relationships of the Federal-State system. We must be willing to realize that over a period of time we can, and possibly already have, radically revised our concept of the relationship of the Federal Government and State and local governments. Time does not permit detailed discussion here of this intricate subject.

More work needs to be done to assess the nature and effectiveness of the methods of delivering Federal Assistance. This is especially true in the area of social action programs and revenue sharing. Efforts at further improvement require the interest and joint participation of officials at the Federal, State, and local levels. No one level of government can do it alone.

Government-Industry Relations

From time to time we hear that companies are not bidding on government contracts because of low profits and red tape. We also hear that it costs considerably more to perform the same contract for the government than it does for a commercial firm.

We start with the assumption that, because government contracts are paid for out of tax revenues, certain steps are required to assure the Congress and the public of the integrity of the process and that these necessary safeguards to the public interest involve certain additional costs.

The spectrum of complaints range from unnecessary and burdensome government requirements, regulations, and controls such as audit and contract administration to low profits. They include compliance with the complex regulations of the Department of Defense and Cost Accounting Standards Board requirements as well as regulations of the Internal Revenue Service, the Securities and Exchange Commission, the Federal Trade Commission, the Occupational Safety and Health Act, and the Environmental Protection Act, to name a few.

The recession and inflation are playing havoc with normal purchasing practices. It is not uncommon today, for instance, for delivery schedules to slip, for pricing of materials to be deferred until the date of delivery; for inventories of ready-to-deliver equipment to back-up due to the lack of a key component, or for the cost of labor and materials to escalate to a level well beyond reasonable anticipation.

Contractors have shown some reluctance to undertake capital expansion due to uncertainties of business forecasts and capital drains to meet legal requirements of the Occupational Safety and Health Act and the Environmental Protection Act. Since 1969, 350 foundries have closed primarily because it was too costly to meet safety and environmental requirements; consequently, the number of suppliers decreased and leadtimes increased substantially. The high cost of meeting these requirements was also

cited as the principal reason for the significantly increased prices for castings and forgings.

By the end of 1974, reports indicated an easing of shortages. This improvement appears to be due more to the recession and cancellation of orders than to positive problem solving and thus may be somewhat misleading as an indicator of permanent turnaround in the market. If the recession eases and the demand returns to the mid-1974 level, the result could be more and possibly even greater shortages and inflationary pressures.

The impact of these conditions on the performance of government contracts has been, and most probably will continue to be, substantial. Inevitably, such conditions result in cost overruns, schedule slippages, shrinking profit margins, liquidated damages, and to a greater degree than before, crushing losses and default terminations.

We should ask the question, "How can the government, faced with such economic turmoil, alleviate these severe hardships of doing business with the government?" An encouraging development has been the action taken on recommendations of the Commission on Government Procurement. Of its 149 recommendations, fully 25 percent were concerned with problems of paperwork, reduction of administrative detail and Government requirements imposed on industry. Those concerned with procurement policy in the Office of Management and Budget, and the General Services Administration, are working to put the recommendations into effect.

Congress already has enacted two laws, including one expanding to \$10,000 the limit on small purchases on which simplified procurement procedures can be used. Previously, these procedures were available for

purchases of \$2,500 or less. The significance of this change is seen in the fact that 90 percent of government purchases are for less than \$10,000.

Cost Accounting Standards

I would now like to put on my other hat, as Chairman of the Cost Accounting Standards Board, and discuss cost accounting standards. I have been privileged to participate in what many people believe to be the renaissance of cost accounting. Although the standards being developed are, by law, applicable to certain negotiated national defense contracts, the concepts set forth in these standards are being extended to other contracts. They will, in time, affect accounting for the cost of Government contracts generally.

Since its creation in 1970, the Cost Accounting Standards Board has put ten standards into effect and has at least that many in preparation. Development of standards is a unique and stimulating challenge to the Board and its staff. Deriving full benefits from the standards is a challenge to all financial managers in government and industry.

In accounting outside the Government, the Financial Accounting Standards Board was established in 1972 to set standards for financial accounting and reporting. The two Boards share common concerns, and have somewhat similar tasks. Satisfactory coordinating arrangements have been worked out. The work of the two Boards is difficult and both deserve the support of all in government and the private sector.

Cost accounting standards represent change. To many people any change is resisted because of concerns that new cost allocation principles may adversely affect profits; for others the problem is simple--the dislike of disturbing traditional cost accounting procedures. Such reactions may not be surprising from industry which views most government regulations as an infringement on the free private enterprise. Thus, we encounter continuous problems in obtaining acceptance of the of the standards, not only within industry but also within government.

Most of the comments we receive from government people favor standards. We are told by auditors, accountants, and contract administrators that increased uniformity, increased consistency, and increased verifiability are some of the immediate benefits of standards. With standards in force, they say there is more assurance that different contractors will treat the same transaction the same way. There is more certainty that contracts will be awarded on the basis of efficiency, and known costs, rather than imaginative accounting.

What should financial managers in the government do? First and foremost, they should become familiar with the standards already promulgated and those in process! Knowledge of cost accounting standards will enable government accountants to derive benefits from the standards and will also allow them to provide input into standards still under development, to make them workable and fair from the viewpoint of both government and industry.

We want and need help, but one cannot help if he is not familiar with standards. In this room are many who see the day-to-day accounting problems encountered in negotiating and administering government contracts.

In asking for your views on cost accounting standards, we would ask that you bear in mind that, to a great degree, the benefits of these standards are cumulative. It may be difficult in some cases to ascertain the precise benefit of a given cost accounting standard. However, we would ask you to focus on the advantages of an entire body of standards as well as on each individual standard.

There is one other area in which the help of the government financial managers is vital. That area is compliance. As Comptroller General, I am well aware of the many cases where well-intentioned government programs were frustrated because of inadequate implementation. We realize that the best standard conceivable can be rendered worthless through poor implementation. The job of government financial managers in this area is clear. It entails committing resources and desires to the task on a continuous basis. But, in order for compliance to be effective, financial managers in government and industry must understand the subject of standards, keep abreast of developments, and work together toward practical implementation of the standards.

Continuing Professional Education

This is another subject you will be discussing.

- What is or should be the purpose of continuing professional education?
- How can continuing education best be accomplished?
- Considering the current economic conditions, is continuing education a luxury or a necessity?
- Who bears responsibility for promoting and guiding such education?

These are questions which I think we all need to focus on at this Symposium.

First, what is or should be the purpose of continuing education? We have long heard the cry that professionals need to keep abreast of developments in their chosen fields.

We need to try to define those things which most directly affect our ability to function effectively as managers or executives; to determine what elements of information and types of development we need to do our jobs better. Only after we define the purpose of continuing professional education can we make logical decisions about approaches, methodology, and content.

Second, that leads directly to the question--how can continuing professional education best be accomplished? There are a multitude of possibilities and a wide disparity in how continuing education is being approached throughout the government and industry.

Professional societies, universities, private firms, and individual consultants offer a bewildering array of books, correspondence courses, seminars, workshops, and college courses. Organizations sponsor internal training and development activities. Individuals read books and subscribe to periodicals. There are so many offerings that it would be easy for us and our staff members to become "perpetual professional students" in attempting to maintain competence.

But what is being accomplished by all this commotion? That is the question. The area of executive development illustrates the problem. Many seminars and programs are aimed at improving a manager's effectiveness as he works with people. However, after sending manager after manager to such programs which vary in length from a few days to several months and can cost thousands of dollars, many of the most perplexing problems are still with us.

A recent study prepared for the American Management Association has concluded that in many cases management development efforts fall far short of what managers need to do their jobs effectively. What is the answer then? More programs? Different programs? New methods for selecting managers? We need to find out. But how?

Many organizations have done extensive research in this area and have been able to identify various cause-effect relationships. Most intriguing are the findings about the effects of different managerial behavior on both people and productivity.

In an effort to improve our own internal operations, we in GAO have asked one such group to work with us. We want to determine if their research and methodology--successfully applied in manufacturing operations--can be a useful tool for staff development in an organization composed almost entirely of professionals.

Perhaps the time has come when we must consider many new and different approaches. If our own effort is successful--and I believe it will be--we will then be exploring ways of sharing this knowledge with other Federal agencies.

To my last question--"Who bears responsibility for continuing professional education?" both the AICPA and the FGAA have faced up to this challenge.

The AICPA, citing the increasing complexity of accounting practice and the fact that the public interest requires accountants to provide competent service; has stressed the need for continuing education. The AICPA is urging that the States make continuing education a requirement for practicing CPAs. Already 16 States have adopted such a requirement.

More specifically directed to public service, the FGAA, 4 years ago, published a very useful statement of educational guidelines. These guidelines were made up of suggestions to be considered by government employees engaged in budgeting, accounting, and auditing functions.

The statement was a good one but it has not received the attention it deserves. It touched on the subject of continuing education well in these words.

"For the professional in public service, education is a continuing need and responsibility; he must keep abreast of technical and professional developments in his chosen field and keep informed on the trends of social, economic, and institutional change that affect his field of operation. He must strive to constantly upgrade his abilities to render better service to his employer--the public--and thereby contribute to improved government operations."

I think this lays the question of responsibility where it belongs-- on all of us as individuals. If we really wish to serve as best we can, we should reach out on our own to keep ourselves equipped. We should not leave it to our superiors and to our organizations to keep prodding us.

Challenges to Auditors

Until recent years, auditing was considered mainly the province of the accountant. Its objective was to check the regularity of financial transactions, compliance with applicable laws and regulations and reliability of financial reports. The scope of auditing is no longer that restricted nor is the practice limited to accountants.

As all of you know, 3 years ago we published a comprehensive statement of standards for conducting a broader scope of audits of government programs and much attention has been devoted to this subject since that time. These standards are concerned with whether program objectives are being achieved and whether greater efficiency and economy can be achieved in attaining objectives.

The initiative for this change in audit scope did not come solely from auditors. Legislators and government management officials also wanted to find out

- if public funds are being used for worthwhile purposes,

- if money is being wasted by inefficiency, and

- if enough is being accomplished for the funds spent.

A traditional financial audit cannot shed much light on questions such as these.

Not only has the scope of auditing been broadened, but there is also greater interest at the Federal level of government in auditing done at State and local levels. This interest has stemmed from the steady increase in Federal assistance payments to State and local governments.

The tremendous increase in such Federal assistance programs in the late 1960s was a major stimulant to those of us in GAO to issue auditing standards applicable for use in assistance programs at all levels of government, regardless of who does the auditing. We believe these standards are helping even though, as we said earlier, more needs to be done to assess the nature and effectiveness of delivering Federal assistance.

Setting standards and performing broad scope audits are important and necessary, but there is also a need to coordinate our audit efforts. In government today, much auditing is done without coordination with other interested groups.

Except for financial audits and some compliance audits, each audit organization generally seems to plan its work in a piecemeal fashion. There is little coordination at various levels to achieve a cooperative audit effort.

The resulting random, sometimes duplicate, reporting on government programs does not provide a clear perspective of government operations and what government programs are achieving.

All government auditors must do a better job of cooperating. They will need to:

- Increase the capability of their staffs.
- Improve their own planning.
- Coordinate their plans with those of other auditors having overlapping responsibility.
- Develop procedures and cooperative working relations that will permit auditors of all types and at all levels of government to rely on each others work.
- Take responsibility for acquainting managers and legislators with the usefulness of their work and how it can be applied.
- And, finally, recognize the need to do a better job of publishing the results of audit work for the benefit of the public.

This is a mammoth task but nothing worth doing ever seems to be easy. The FGAA has made tremendous progress in the past 25 years. There are many important challenges for the next 25. The agenda of this Symposium shows me that you are well aware of the challenges and are concerned with being prepared to meet them.

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